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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, DECEMBER 18, 2001

APPLICATION OF

CENTRAL VIRGINIA ELECTRIC
COOPERATIVE

CASE NO. PUE000583

For a general increase
in rates

FINAL ORDER

Central Virginia Electric Cooperative ("CVEC" or the "Cooperative") has filed with the Commission an application for a general increase in rates under § 56-582 A 3 of the Virginia Electric Utility Restructuring Act, Chapter 23 (§ 56-576 et seq.) of Title 56 of the Code of Virginia ("the Act"), which authorizes the establishment of capped rates from January 1, 2001, to July 1, 2007. The Cooperative proposed capped rates using a projected 2007 cost of service. Pursuant to § 56-582 B(iv) of the Code of Virginia, the Cooperative proposes to discount the capped distribution rate each year between 2001 and 2007 to match the cost of service. The discount percentage would be computed using a target Time Interest Earned Ratio ("TIER") based on estimated interest and operating expenses through 2007. In addition, CVEC proposed changes in its charges and terms and conditions of service.

CVEC also filed for approval of its plan for functional separation ("Plan") as required by the Act. The Act requires that the Commission complete its review of proposed plans of separation by January 1, 2002, and that transition to competition be implemented according to a timeline established by the Commission. Pursuant to an Order issued on March 30, 2001, in Case No. PUE000740, the Commission established January 1, 2004, as the deadline for CVEC and other electric cooperatives to provide full retail access for their customers.

The Commission promulgated rules¹ for functional separation as required by the Act. These Rules require the Cooperative to file a Plan that includes a cost of service study separating the Virginia jurisdictional operations into functions: generation, transmission, and distribution, subdivided by class and specifically identifying the costs associated with metering and billing. The Rules also require that the Plan include proposed unbundled rates, tariffs, and terms and conditions for service. Requests for waiver from the required submission of documents under the various sections of the Rules are also permitted.

As required by the Functional Separation Regulations, 20 VAC 5-202-40 B 8, CVEC filed its proposed unbundled rates, terms, and conditions as part of the functional separation

¹ Commission's Regulations Governing the Functional Separation of Incumbent Electric Utilities under the Virginia Electric Utility Restructuring Act ("Rules"), 20 VAC 5-202-10 et seq., adopted in Case No. PUA000029.

application. The Cooperative also addressed default service provided pursuant to § 56-585 E of the Code of Virginia.

Before the Commission is the Report of Howard P. Anderson, Jr., Hearing Examiner, filed August 22, 2001 (hereinafter the "Report"). Examiner Anderson recommended that the Commission accept a stipulation of fact filed by CVEC and the Commission Staff and grant the application.

In response to the Report, CVEC filed on September 12, 2001, comments on one aspect of the Report. Examiner Anderson recommended that CVEC refund with interest any amount collected through the interim rates and charges to all classes of customers. CVEC had advocated before the examiner and now before the Commission that no refund be made to members served under the Cooperative's Rate Schedule A, Farm and Home Service. According to CVEC, the difference between the Schedule A Minimum Charges in effect, on an interim basis, from January 1, 2001, and the Minimum Charges proposed in the stipulation would not exceed approximately \$60,800 for the entire class as of June 2001, while the cost of making the refund would exceed \$50,000. The stipulation did not address the refund issue.

CVEC made two arguments for not making the refund. First, the cost of the refund to its member-customers would probably exceed the amount refunded. Further, the Minimum Charges in effect on an interim basis were supported by cost-of-service

studies accepted by the Staff. No refund should, in CVEC's view, be required when the interim rates were within the same range of reasonableness as the Minimum Charges accepted for purposes of the stipulation.

The Commission has considered the record made in this proceeding, the Report, and CVEC's comments on the Report. We will adopt the Examiner's recommendation to accept the joint stipulation. According to the Report, the stipulation was a fair and just resolution of the issues identified in the application and the testimony and exhibits, and we find that the record supports such a finding.

Since it is not a member of a power supply cooperative, CVEC opted to use the unique discounting mechanism for capped rates provided by § 56-582 B (iv) of the Code. Discounting requires estimation of future costs of providing distribution services and customer growth, among other variables. To implement the discount mechanism, future interest expenses and interest coverage must also be estimated so that the Cooperative remains on a sound financial footing. Of equal importance is crafting the discount mechanism to assure that member-customers pay no more than is necessary to assure financial soundness. The record shows that the Staff and the Cooperative investigated these issues, and the stipulation is a reasonable resolution of the issues. In particular, the procedure for annual Staff

review of the development of the discount factor should provide for fair and expeditious adjustment of rates.

In addition to accepting the stipulation, the Examiner also recommended that CVEC make refunds to all customers, which would include those served under Schedule A, Farm and Home Service. Examiner Anderson noted that the expense of any refund could approach the amount of the refund. Section 56-582 of the Code of Virginia, the same provision of law that authorized CVEC to file rates that took effect without suspension, requires that such rates be "subject to refund with interest. . . ." The rates we find just and reasonable are below the rates filed by CVEC and a refund is necessary. The Commission will adopt the Examiner's recommendation, and we direct a refund to all classes of customers.

With regard to functional separation, we find that generation and transmission costs should be tracked prospectively by the Cooperative in order to ensure accurate functional allocations in any future proceedings before the Commission. We also direct the CVEC to begin tracking the incremental costs associated with billing and collection costs, as well as the activities that give rise to the customer service and legal and regulatory costs.

CVEC, through its Power Cost Adjustment Rider ("PCAR"), flows through to consumers costs or credits reflecting changes

in a number of components of generation, including fuel, purchase power, and load management cost and credits. Like other cooperatives' fuel factors, the PCAR fluctuates monthly. The impact of the monthly PCAR adjustment in relation to the determination of the market price for generation and the wires charge (should CVEC ever request such a charge) may impact the development of competition. However, because it is not necessary that we resolve this issue prior to January 1, 2002, we will defer our consideration of it until next year. In the interim, we direct the Staff to (i) consult with CVEC, the other electric cooperatives, and any other interested parties on this issue and (ii) submit a written recommendation to the Commission on or before March 1, 2002, on whether we should implement an annual fuel factor adjustment or PCAR for the cooperatives in lieu of the current fluctuating monthly charge.

Accordingly, the Commission finds as follows:

(1) The use of a test year ending December 31, 1999, with adjustment to rate base and rate base sensitive items to May 31, 2001, and the Staff's methodology to adjust for the rate period from 2001 through 2007 are proper and comply with the requirements of the Act.

(2) CVEC's total operating revenues for the Virginia jurisdiction projected for 2001, after adjustments, are \$33,066,043, and total operating revenues for the Virginia

jurisdiction projected for 2007, after adjustments, are \$42,343,584.

(3) CVEC's total operating expenses for the Virginia jurisdiction projected for 2001, after adjustments, are \$29,359,071, and total operating expenses for the Virginia jurisdiction projected for 2007, after adjustments, are \$40,883,299.

(4) CVEC's operating margins for the Virginia jurisdiction projected for 2001, after all adjustments, are \$3,706,972, and \$1,460,285 projected for 2007.

(5) CVEC's total margins for the Virginia jurisdiction projected for 2001, after all adjustments, are \$946,267, and \$(1,800,039) projected for 2007.

(6) CVEC's total rate base for the Virginia jurisdiction projected for 2001, after all adjustments is \$72,146,689, and \$87,789,074 projected for 2007.

(7) CVEC's TIER for the Virginia jurisdiction projected for 2001 is 1.32, and 0.48 projected for 2007.

(8) Use of a TIER range of 1.75 to 2.25 for annual review and modification of rates to maintain margins is reasonable and supported by the record. CVEC's capped rates should be discounted, as found in finding paragraph (11) below, to afford CVEC an opportunity to achieve the midpoint, a TIER of 2.0.

(9) CVEC's projected additional revenue requirement and total revenue requirement for the Virginia jurisdiction for 2001 are \$2,018,409 and \$35,084,452, respectively and for the year 2007, as projected, are \$5,269,536 and \$47,613,120, respectively, to achieve a TIER of 2.0.

(10) CVEC's total projected Virginia jurisdiction revenue requirement for the year 2007 of \$47,613,120 should be the basis for determining the Cooperative's "capped rates" in accordance with the Act and the basis for functionally unbundled retail rates.

(11) The proposed adjustment mechanism to calculate a discount from the capped rates for the years 2001 through 2007 is reasonable and should be implemented.

(12) Application of a discount of 6.72% to CVEC's 2007 capped rates to develop rates and charges for service provided on and after January 1, 2001, is reasonable and will produce sufficient additional revenues to provide CVEC an opportunity to achieve a TIER of 2.0.

(13) To implement the adjustment mechanism found to be reasonable in finding paragraph (11), CVEC should file with the Commission by April 1, 2002, and by April 1 of each year thereafter through 2007, a financial status statement that is based on information for the preceding calendar year and meets the requirements that follow:

(a) The financial status statement shall begin with total Cooperative per books information and remove non-jurisdictional business and generation business. Generation business should be removed based on the functional separation methodology included in the Stipulation, Company Ex. 1, as corrected at the July 10, 2001 hearing (hereinafter "the Corrected Stipulation"), Attachments C and D.

(b) Only those adjustments necessary to reflect the Cooperative's financial information on a regulatory accounting basis should be made. Such regulatory accounting adjustments shall include, but are not limited to, unbilled revenue; annualization of changes to the base-rate discount; storm damage; post-retirement benefits other than pensions; material out-of-period costs; and material non-recurring costs.

(c) Transition costs incurred by the Cooperative to comply with requirements of the Act shall be included in per books expenses in the financial status statement. Including transition costs shall not cause a decrease in the discount rate applied to capped rates.

(d) The financial information shall be evaluated by the Commission to determine whether the Cooperative's earnings are within a TIER range of 1.75 to 2.25. The discount from the capped rates, if any, will be calculated.

(14) The unbundled retail rates, by customer class, in the Corrected Stipulation, Attachment E1, are reasonable and should be approved.

(15) CVEC should recover payment of load management credits through its Power Cost Adjustment Rider ("PCAR"). The PCAR should recover or credit the difference between actual monthly purchased power costs and the projected purchased power costs for 2007. Certain other generation expenses are not subject to recovery in the PCAR. Attachment G to the Corrected Stipulation details in the column headed "Subject to PCA Recovery" the accounts included in the PCAR. Other accounts are detailed in the column headed "Subject to Gen. Rate Cap." The Power Cost Adjustment Rider as set out in the Corrected Stipulation, Attachment F, reflects the methodology in Attachment G. It is reasonable and should be approved.

(16) The recommendations of Staff witness Abbott for modifications to the Cooperative's terms and conditions for service set out in Ex. GLA-8 at 25-32 are reasonable and should be implemented.

(17) CVEC should refund, with interest, to all customers all amounts we find excessive.

Accordingly, IT IS ORDERED THAT:

(1) As provided by the Act and related provisions of Title 56 of the Code of Virginia, CVEC's application for a general

increase in rates is granted to the extent discussed in this Order and is otherwise denied.

(2) CVEC's application for approval of a functional separation plan pursuant to the Act is granted and the plan is approved to the extent discussed in this Order and is otherwise denied.

(3) On or before December 28, 2001, CVEC shall file with the Commission's Division of Energy Regulation revised schedules of rates and charges and terms and conditions conforming to the Commission's findings in this Order. The revised terms and conditions shall include a description of the mechanism for developing the discount from the capped rates. The revised rates and charges and terms and conditions shall bear an effective date of January 1, 2001, and be effective for service provided on and after January 1, 2001.

(4) On or before March 1, 2002, CVEC shall recalculate, using the rates and charges prescribed by this Order and effective on January 1, 2001, each bill it rendered to all customers based, in whole or in part, on the rates and charges that took effect, on an interim basis and subject to refund, on January 1, 2001. Where application of the prescribed rates results in a reduced bill, CVEC shall refund, with interest, as directed below, the difference.

(5) Interest on refunds shall be computed from the date payments of monthly bills were due to the date refunds are made, at the average prime rate for each calendar quarter. Interest shall be compounded quarterly. The average prime rate for each calendar quarter shall be the arithmetic mean, to the nearest one-hundredth of one percent, of the bank prime loan" rates published in the *Federal Reserve Bulletin* or in "Selected Interest Rates", Federal Reserve Statistical Release H.15 (519), for the three months preceding the first month of the calendar quarter.

(6) The refunds directed in ordering paragraph (4) may be credited to current customers' accounts (each refund category shall be shown separately on each customer's bill). Refunds to former customers of \$1.00 or more shall be made by check mailed to the last known address. CVEC may offset the credit or refund to the extent no dispute exists regarding the outstanding balance of a current or former customer. No offset shall be permitted for the disputed portion of an outstanding balance.

(7) CVEC may retain refunds of less than \$1.00, which are due former customers. CVEC shall maintain a record of former customers for which the refund is less than \$1.00, and such refunds shall be made promptly upon request. All unclaimed refunds shall be subject to § 55-210.6:2 of the Code of Virginia.

(8) On or before May 20, 2002, CVEC shall file with the Commission's Division of Energy Regulation a report showing that all refunds have been made pursuant to this Order and detailing the costs of the refund and accounts charged. Costs shall include, inter alia, computer costs, and the personnel hours, associated salaries and costs for verifying and correcting the refunds directed in this Order.

(9) On or before March 1, 2002, the Staff shall submit a written recommendation to the Commission on whether we should transition to an annual fuel factor adjustment for the cooperatives from the current fluctuating monthly fuel charge, and if so, how such a transition should occur.

(10) CVEC shall provide tariffs and terms and conditions of service to the Division of Energy Regulation that conform to this Order and all applicable Commission Rules and Regulations one hundred fifty (150) days prior to its implementation of retail choice.

(11) This case is closed and dismissed from the Commission's docket.